UNITED NATIONS

TD

United Nations Conference on Trade and Development

Distr.
LIMITED

TD/B/43/SC.1/L.1/Add.1
15 October 1996

Original: ENGLISH

TRADE AND DEVELOPMENT BOARD
Forty-third session
Geneva, 7 October 1996

Sessional Committee I

DRAFT REPORT OF SESSIONAL COMMITTEE I

Rapporteur: Mr. Rénald Clérismé (Haiti)

ITEM 4 (continued)

Speakers: Japan
Norway
Ireland (for European Union)
Bhutan
China
European Community
Bangladesh
Russian Federation
Switzerland

Note for Delegations

This draft report is a provisional text circulated for clearance by delegations.

Requests for amendments - to be submitted in English or French - should be communicated by **Friday, 25 October 1996, at the latest** to:

The UNCTAD Editorial Section
Room E.8106
Fax No. 907 0056
Tel. No. 907 5657 or 5655

GE.96-51934

Chapter I

PROGRAMME OF ACTION FOR THE LEAST DEVELOPED COUNTRIES FOR THE 1990s

(a) REVIEW OF IMPLEMENTATION OF THE PROGRAMME OF ACTION FOR THE LDCS FOR THE 1990s;

(b) UNCTAD'S CONTRIBUTION TO THE WORK OF RELEVANT INTERNATIONAL ORGANIZATIONS IN THE IMPLEMENTATION OF THE URUGUAY ROUND FINAL ACT DECISION ON MEASURES IN FAVOUR OF THE LEAST DEVELOPED COUNTRIES BY ASSISTING THE LDCS THAT ARE WTO MEMBERS TO TAKE MAXIMUM ADVANTAGE OF THE SPECIAL AND DIFFERENTIAL MEASURES PROVIDED FOR IN THE URUGUAY ROUND AGREEMENTS

(Agenda item 4)

(continued)

35. The **Chairman** briefed the meeting on the Panel discussion. (See annex below).

36. The representative of **Japan** said that further integration of LDCs into the global economy was one of the most important issues to be tackled in the processes of the globalization and liberalization of the world economy. Development should be promoted through a comprehensive approach that includes the resources and political will of both traditional and new donors including the new additional domestic resources of the recipient countries. He commended the LDCs Report 1996 on its extremely informative and educational approach on its monitoring of the trends in LDCs' economic performance, as well as on its analytical comparative assessment with respect to developed as well as developing countries. The Report particularly underscored the importance of solving the supply-side constraints in LDCs in order to integrate them into the global economy. He emphasized the need for fuller analyses of the successful experiences of strong-growth LDCs from the viewpoint of alleviating or removing supply-side constraints. He proposed to intensify South-South cooperation as a possible additional means of export promotion for developing countries, particularly LDCs.

37. While the total volume of ODA from all DAC donor countries had been decreasing recently, Japan's ODA to LDCs in 1995 increased by 9.3 per cent against that of 1994. He reiterated the importance of the South-South cooperation framework, as one of the significant means of integrating LDCs into the world economy. Japan was determined to support actively this kind of

cooperation. Japan recognized the significance of establishing the Trust Fund for LDCs at UNCTAD and would contribute only to concrete schemes of the Fund. He recommended that its activities should include strengthening South-LDC cooperation.

38. The representative of **Norway** recalled that at UNCTAD IX, it had been decided that the situation of the LDCs should be a priority issue in the work of the organization. In a time of dwindling resources to the UN system and to development, it was very important that efforts were targeted towards the LDCs. UNCTAD's special role for the LDCs within the inter-agency system was based on its responsibility to monitor the implementation of the Programme of Action for the LDCs. This is a task that UNCTAD does well. The annual LDC Report continued to be a well-researched and important reference document for organizations and individuals who sought information on the current economic situation of LDCs. The unit producing the report deserved credit for its work. The Norwegian Government had undertaken a major review of general policies towards development in the last few years. A Government white paper on "A World of Change" was presented last year, and was the subject of a comprehensive evaluation by Parliament. He summed up some of the policies of his Government that might be relevant to the discussion, which included the following:

(a) Norway would maintain a high ODA contribution, well above the 0.7 per cent target. According to the budget proposal presented to Parliament last week, it proposed to increase ODA by some 7.4 per cent in 1997; the general orientation of Norway's development policies towards poverty-related policies, programmes and projects would be reinforced; Norway would continue to fulfil its obligations to the targets of the Paris Programme of Action of at least 20 per cent of its ODA to LDCs;

(b) It would continue other efforts to ensure that development resources were directed towards the most needy, i.e. through the implementation of the 20/20 principle; Norway would continue to support travel arrangements that could enable LDC representatives to take part in UNCTAD's work. It looked to other donors to do more in that respect; Norway strongly supported efforts to integrate the LDCs more directly into the world economy, i.e. through the global trading system. It had initiated a WTO fund to support greater LDC implementation and participation. It had encouraged the WTO to cooperate closely with UNCTAD and ITC in that respect; Norway was in the process of proposing to Parliament the establishment of a Norwegian fund for investments in developing countries. The

objective will be to support enterprise development. This would be particularly relevant to African LDCs.

39. He emphasized that the real test of the reorganization of the secretariat was the degree to which LDC issues were integrated into the four new secretariat divisions. That was where the translation of UNCTAD's valuable analytical work to policy formulation ought to take place.

40. He said that the new Commission on Investment, Enterprise Development and Technology had a particularly important task to investigate how more foreign direct investments could be encouraged to flow towards the LDCs, and to help LDCs set up policies and programmes conducive to foreign investments.

41. The representative of **Ireland**, speaking on behalf of the **European Union**, said that the risk of marginalization of LDCs was and would remain a focus of attention for the EU. It saw the particular problems of LDCs as central to all of UNCTAD's activity and a point that ought to be addressed at all discussions and not solely at the Sessional Committee. The EU urged the Secretariat to begin to deepen its analysis of the key issues confronting LDCs as soon as possible. The TDB should ask the Commissions to pay special attention to the problems confronting LDCs in carrying out their tasks. The Commissions' reports to next year's TDB should, whenever possible, focus on issues of direct relevance to LDCs.

42. The EU currently accounted for about half of the world ODA to the LDCs. Within the EU total, the European Community as such contributed about $1.35 billion in ODA, making it one of the largest individual contributors of aid to the LDCs. The successful conclusion in 1995 of the mid-term revision negotiations of the Fourth Lomé Convention for the African Caribbean and Pacific partner countries, of which 39 are least developed countries, with a 22 per cent increase in funding over the previous five-year period, meant that those countries could look forward to an increased flow from the European Community over the next five years.

43. He welcomed the currently improving performance of LDCs' exports. The EU was the LDCs' major trading partner accounting for over one-third of their exports and offering roughly three-quarters of their preferential export markets. It would be worthwhile to examine the causes of decline in LDCs' exports and consider what policy approaches might contribute to improving LDCs' competitiveness as commodity producers and reversing the declining market share.

44. Flows of foreign direct investment to the LDCs had seen a rising tendency although their share in FDI flows to developing countries as a whole had declined. UNCTAD ought to probe deeper into the reasons why LDCs continued to lag behind in relation to FDI flows, and to examine in greater detail the measures to reverse that trend, drawing on the experience of this year's high-level segment.

45. The EU had actively pursued approaches to respond to the debt problems of the least developed countries as called for in the New York Mid-Term Review. It had welcomed the successful outcome of the meeting of the Development and Interim Committees of the World Bank and the IMF, where a framework for action to resolve the debt problems of heavily indebted poor countries had been achieved. That would undoubtedly be of major benefit to many LDCs over the next decade and he looked forward to its speedy implementation.

46. The representative of **Bhutan** said that although much had already been said about the need to assist the LDCs to prevent their further marginalization, that expressed commitment had not been matched by concrete actions. If actions at the national level were to be sustained and yield their intended results, international supportive measures ought to be forthcoming in a true spirit of partnership for development. He hoped that the Trust Fund for LDCs would result in strengthening UNCTAD's activities for those countries. The effectiveness and impact of the Fund would depend largely on the financial resources made available to it, and urged all donors to contribute generously. He said that UNCTAD was the only forum where issues pertaining to LDCs were dealt with in a comprehensive manner. He hoped that the entity dealing with LDC issues within the UNCTAD secretariat would be adequately equipped to enable it to effectively carry out the tasks assigned to it at Midrand. In that regard, he awaited the speedy confirmation of the appointment of the Special Coordinator. With his/her appointment, he looked forward to the formulation of focused and substantive strategies that would address the specific needs and problems of the LDCs.

47. He called upon the Singapore WTO Ministerial Meeting to adopt a comprehensive Plan of Action for the LDCs containing concrete measures in the areas of market access, FDI, capacity-building and operationalization of the Marrakesh Ministerial Declaration/Decisions.

48. The representative of **China** said that the present session of the Board was the first opportunity to examine the international support measures adopted in favour of LDCs, particularly those of the High-level Intergovernmental Meeting on the Mid-term Global Review. The international community had committed itself to help LDCs to better integrate in the world economy and the international

trading system. The development performance of LDCs in the first half of the decade had been far from realizing the objectives of the Programme of Action. He referred to the decline of ODA flows to LDCs in 1995 and called for their increase. Referring to the external debt problems of the LDCs, he said that there had been considerable progress but that they were still far from meeting those countries' needs, and called for urgent measures to overcome this problem. He emphasized the need to increase the capacity and capability of LDCs to enhance their participation in international trade and to resolve their transitional problems. Special and differential treatment should be provided to LDCs in accordance with the rules and regulations of the Uruguay Round Agreements. Commenting on the LDCs 1996 Report, he said it deserved in-depth examination by LDCs and their development partners, and that appropriate measures should be taken on the basis of its findings and recommendations.

49. The representative of the **European Community** said that UNCTAD should devote higher priority to the least developed countries in its technical assistance and analytical work on trade matters. At an appropriate moment, the UNCTAD secretariat could establish a balance sheet of what had been done in that field to implement the Paris Programme of Action and the outcome of the New York Mid-Term Review.

50. The European Union constituted the least developed countries' largest export market, accounting for 34.5 per cent of their exports in 1994. The European Union also provided the greater part of the LDCs' preferential export markets through the Lomé Convention for 39 out of the 48 LDCs and the revised, and for the LDCs, much improved GSP scheme, for the other nine countries. Those schemes provided for unlimited access to the EU markets for almost all non-agricultural goods and many agricultural products at zero duty and for highly preferential access in the agricultural products. Other countries could provide more preferential treatment of LDCs' exports.

51. The recently revised Lomé Convention extended preferential market access. It also paid greater attention to the very important area of trade development, and both the EU and ACP countries were committed to devote adequate resources to the expansion of ACP trade. In that context, attention would be given to the development of the private sector, appropriate economic policies, development of infrastructure, improvement of import regimes, transportation and services needed for exports.

52. He congratulated UNCTAD for its contributions and participation in the work of the WTO Committee on Trade and Development and the Sub-Committee on LDCs and for the collaboration and coordination that were thus being established mainly

in terms of technical assistance. The results of those reviews indicated that in most of the areas covered by the Decision, progress had been made but that reflection should be pursued on what more could be done.

53. He considered that further efforts for preferential policies and liberalization in favour of the least developed countries should continue in a multilateral framework, with a view to providing long-term stable export opportunities. Not only the industrialized economies, but also the more advanced developing countries, should participate and contribute in that operation, by taking measures designed to facilitate access to their markets by the LDCs.

54. The representative of **Bangladesh** said that in recent years there had been a significant shift in government policy. Narrow and inward-looking import-substitution industrialization strategy had gradually been replaced by a broad and outward-looking export-oriented industrialization programme reliant on private enterprises. That had resulted in lowered levels of protection for the domestic industry and easier access to importers of industrial raw materials. Privatization of many state-owned enterprises, progressively diminishing state intervention for marketing of agricultural inputs and an increasingly important role for the market forces in determining key economic variables had been the salient features of this new economic policy.

55. However, the opening up of the economy, along with the liberalization of trade as a part of the process of implementation of Uruguay Round decisions, and WTO stipulations, had been the causes of an increasingly adverse balance-of-payments situation with its effect on exchange rate and development. Consequent to the low tariff rates, imports had increased while economic development and exports had been circumscribed by, in addition to other causes, exogenous factors including the restrictive policy of other countries coupled with the sluggish and diminished flow of both private and official funds.

56. He said that Bangladesh had adopted a very liberal investment policy under which 100 per cent foreign equity was allowed for investment, along with guarantees for repatriation of profit. The private sector could also set up export-processing zones on their own. Despite all such steps, FDI flow had been most disappointing. He also enumerated recent trends in Bangladesh GDP growth rate, exports and imports.

57. Referring to the implications of globalization, he said that globalization contained an incipient threat of marginalization of LDCs. He cautioned the meeting about attempts to introduce new issues such as labour standards, competition policy, environmental standards, investment treaty, etc. within the

ambit of WTO with its implication of cross retaliation. The attempts to conjoin such non-trade related issues with the regulations of WTO was likely to constrict world trade and could lead to protectionism.

58. He appealed to developed countries and countries at a higher level of development than LDCs to discharge their part of the "shared responsibility" for alleviating the problems of the LDCs, including arresting further deterioration in the socio-economic situation of such countries and to reactivate and accelerate growth, a commitment which had reverberated throughout the deliberations at Paris, Marakkesh, Lyon and New York.

59. The representative of the **Russian Federation** pointed out that his country considered the Programme of Action for the Least Developed Countries for the 1990s as an agreed international strategy for resolving one of the global problems of mankind. He stressed that Russia totally supported all crucial recommendations of the Mid-Term Global Review on the Implementation of the Programme, as well as relevant recommendations of UNCTAD IX and the Lyon Summit. Despite the enormous difficulties of the transitional period, it would continue to cooperate with LDCs. For example, the Russian Federation continued to import from LDCs on a duty-free basis, and provided technical assistance in mining, development of oil and gas industries, harbour facilities, etc.

60. He stated that, during the last two to three years, Russia had been reviving its economic relations with the LDCs and seeking to establish new mutually beneficial forms of relations with them. He underlined the importance of reactivating the Russian-LDCs bilateral intergovernmental commissions on economic, trade and technological cooperation, as well as increasing contacts between the Russian Chamber of Commerce and Industry and the homologous organizations of a number of LDCs. He said that Russia was in a position to provide assistance to LDCs in a number of areas of goods and services which they needed.

61. He considered the indebtedness of LDCs as a restraining factor for increasing cooperation. In that connection, he said that his Government was following with interest the Paris Club efforts and the World Bank-IMF Initiative on debt relief for the poorest countries. He stressed that his Government completely supports UNCTAD's efforts towards sustainable development of the LDCs. He added that Russia welcomed, in principle, the idea of the establishment of the Trust Fund for the LDCs and also the decision to establish the Office of the Special Coordinator for Least Developed, Land-locked and Island Developing Countries. The Russian Federation gave particular importance to that initiative

in view of the fact that a number of LDCs were Russia's traditional economic partners and a number of landlocked countries were constituent members of CIS.

62. He concluded by saying that the Russian Federation would continue to support LDCs' cause in UNCTAD and in all international forums.

63. The representative of **Switzerland** said that following UNCTAD-IX, UNCTAD was in a position to make a decisive impact on assisting LDCs in their efforts towards reaching sustainable development and towards integration into the world economy and the world trading system. It was agreed at Midrand that the future activities of UNCTAD should be focused on the needs of LDCs. The next important step would be to ensure that that statement would be translated into useful action.

64. He reviewed recent improvements in the overall economic situation of the LDCs, the decline in ODA and uncertain ODA prospects, and the recent debt initiative for the heavily indebted poor countries. He mentioned that at the Lyon Summit, the G-7 had committed itself to reverse the trend of marginalization of LDCs, to continue to provide substantial official assistance and to focus assistance increasingly on LDCs, which he strongly supported.

65. He also mentioned the following areas for further action in LDCs: trade diversification, regional cooperation and conflict prevention. National measures by LDCs should prioritize trade-policy reforms, human resource development and capacity-building in technology.

66. As regards UNCTAD's future role in the support of LDCs, he said his delegation was convinced that the distinction made in the Addendum to the LDCs 1996 Report between a "priority needs package" on a short-term basis and long-term assistance in the area of trade-related support to LDCs was appropriate. In his view, the measures foreseen in the first category should be implemented mainly through the technical cooperation programmes of WTO and UNCTAD's "Trade Point" programmes. With regard to the category of long-term financial and technical assistance, UNCTAD's technical programme could make an essential contribution in the area of regional cooperation and trade promotion. For that purpose, however, the share of LDCs in UNCTAD's technical cooperation programme needed to be substantially increased. That share had dropped from 42 per cent in 1989 to 28 per cent in 1995. After having committed itself at the UNCTAD-IX Conference to focus its activities, above all, on the needs of LDCs, the organization should increase the LDCs' share in its technical cooperation programme in order to retain the credibility it had gained at Midrand. He

highlighted the coordination among concerned organizations in providing support to LDCs.

67. Switzerland supported the implementation of country-based programmes. It was in the process of revising its GSP. Under the new system, products from all developing countries, in particular LDCs, would benefit from a substantially improved market access. The Swiss authorities were willing to provide beneficiary countries with up-to-date information on the revised GSP after its adoption at the beginning of next year.

68. He called upon UNCTAD to carefully analyse the impact of the implementation of the Uruguay Round on developing countries, in particular LDCs. UNCTAD could also play an important role in assisting LDCs in participating in the multilateral trading system.

Annex

Report of the Chairman of Sessional Committee I on the work of the Panel Meeting on agenda item 4

8 October 1996

Participating panellists:

Ambassador Nacer BENJELLOUN-TOUIMI of Morocco, Chairman of the Trade and Development Committee of the WTO;

Ambassador Anwar HASHIM of Bangladesh, Coordinator of LDCs in Geneva;

Ambassador Ali Said MCHUMO of the United Republic of Tanzania;

Mr. J. SEADE, Deputy Director-General of the WTO;

Mr. Grant TAPLIN, Assistant Director of the IMF.

Discussions at the Panel centred on the Plan of Action for LDCs being drafted within the WTO and the recent initiatives of the World Bank and IMF on resolving the debt problem of the heavily indebted poor countries. I wish to highlight some of the important points which have emerged from these discussions.

It was noted that the Plan of Action, if appropriately elaborated and implemented, will contribute to enhancing trading prospects of LDCs, and their speedy integration into today's rapidly globalizing and liberalizing world economy and trade. Alleviation of debt, likewise, will help in freeing scarce resources for LDCs which, in turn, could help in the process of adjustment and reform to overcome structural and supply-side weaknesses.

The WTO Plan of Action is expected to comprise three elements: improving market access conditions; encouraging FDI flow; and coordination and cooperation among concerned international organizations in implementing the Plan. The draft will be presented at the first Ministerial Meeting of the WTO to be held in Singapore in December this year. A Ministerial Meeting of LDCs will be convened next month to assist these countries to prepare for the Singapore Ministerial Meeting. Following this Meeting, a high-level meeting will be convened by WTO to consider the collaboration and coordination among WTO, UNCTAD, ITC, the World Bank and IMF in the implementation of the Plan of Action for LDCs.

It was pointed out by some participants that the WTO Plan of Action would be an important instrument in enhancing market access of LDCs, but in itself may not guarantee export expansion. The Plan would need to be complemented by actions aimed at overcoming supply-side impediments by putting in place the necessary human, physical and institutional infrastructure, upgrading technological capacity, and providing support to improving trade and related policies. The need for technical assistance and financial support was cited in resolving longer-term constraints.

Ongoing collaboration between UNCTAD and WTO in providing technical assistance to LDCs in the area of trade was highlighted. It was underscored that UNCTAD and WTO should work in tandem in elaborating specific actions and their implementation. Some Panellists emphasized that technical assistance should not be limited to seminars and providing experts, but help to address the fundamental problems which limit the production capacity in LDCs. Such assistance needs to be tailored to the specific requirements of each LDC. A multidisciplinary approach was required in the assistance programmes for the LDCs.

The Panel meeting addressed the question of FDI to LDCs. Most LDCs have put in place liberal policies to attract FDI. However, the volume of FDI to these countries has remained scanty. Some participants noted that the problem was not with policies, but with the structural weaknesses in LDCs. Foreign investors prefer to invest in countries with better infrastructure, which are not available in LDCs. They recommended that the developed countries, more advanced developing countries and concerned international organizations should work together to encourage FDI to LDCs.

The Panel also discussed the recent initiative by the World Bank and the International Monetary Fund on the debt of the heavily indebted poor countries, or HIPCs. Of the 41 countries identified as HIPCs, 29 are LDCs. The Panel was informed that the initiative is designed to resolve the debt problems of HIPCs by reducing the external debt burden to sustainable levels, so as to ensure that adjustment and reforms in these countries are not exposed to risks arising from indebtedness. Action under this initiative will be envisaged only when the debtor country has shown, through a good track record of policy performance, its ability to put the support provided to good use. The initiative will cost an estimated $5.5 billion and will be financed out of IMF's Enhanced Structural Adjustment Facility, World Bank funds and the Paris Club, which is to provide up to 80 per cent in debt relief. The operations may not involve less conditionality for the participating debtor countries.

As Chairman of the Panel meeting, I proposed to initiate consultations, within the framework of an open-ended group of the Sessional Committee members, with a view to preparing the conclusions of this Committee's work on item 4. It is my wish to begin these consultations as early as possible.